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C O N F I D E N T I A L SECTION 01 OF 02 CONAKRY 000436

SIPDIS
SENSITIVE

E.O. 12958: DECL: 03/16/2019
TAGS: [ECON](#) [EINV](#) [EMIN](#) [ENRG](#) [EPET](#) [PGOV](#) [PREL](#) [GV](#)
SUBJECT: A TALE OF TWO EXPROPRIATIONS

REF: A. A:CONAKRY 00776
[1](#)B. B:CONAKRY 00311
[1](#)C. C: CONAKRY 00456

Classified By: ECONOFF BRIANA WARNER FOR REASONS 1.4 (B) AND (D)

[1](#)1. (C) SUMMARY: The Ministry of Mines recently threatened two large economic players in Guinea's natural resource sector. Anglo-Australian mining giant Rio Tinto received a letter threatening total contract revocation. In the oil sector, employees of Hyperdynamics, a US oil exploration company, woke up on July 10 to reports that the GOG awarded Sino-Angolan Sonongal the rights to their 31,000 square mile oil concession. Both companies seem fairly confident that their contracts will eventually be respected, and that the government will recognize that the companies' large investments benefit the economy in the long-term. END SUMMARY.

REMOVE YOUR MACHINES OR LEAVE WITH YOUR BILLIONS

[1](#)2. (U) In a letter mailed to Rio Tinto,s Australia headquarters, Minister of Mines Mahmoud Thiam demanded that the company remove its machinery from the controversial northern half of their Simandou mining concession, or face suspension from the entirety of the massive iron-ore project. A copy of the letter was released to international news sources on July 22, and Rio Tinto took action to remove the machinery from the premises by Monday, July 28.

[1](#)3. (U) Claiming that he had proof of Rio,s "direct implication in a libel campaign against the Guinean state," Thiam noted that Rio,s refusal to accept GOG demands to clear the northern half of concession "veered on defiance of the authority of the state." He also stated that the GOG,s decision was irrevocable and final.

[1](#)4. (C) Rio Tinto has been fighting a battle over the northern half of the Simandou concession since it was abruptly awarded to BSGR Resources (BSGR), owned by Israeli diamond mogul Benny Steinmetz, in December of last year (reftel A). Though this threat is only one in a long line of GOG warnings to Rio, the new General Manager of Rio,s Guinea project, Steven Din, was confident in a conversation with Econoff on July 9 that Rio would regain the northern half of their concession. Having already invested nearly \$450 million USD in the project, Din believed that the GOG would eventually realize their folly in awarding the northern concession to BSGR. For now, he said that Rio will let the legal battle be waged in court. Rio operations are falling far behind their 2015 project completion goals. The company scaled back staffing by fifty percent while limiting operations to community development in the past 5 months (reftel B).

15. (C) Din also believed that the GOG was disenchanted by the work of BSGR, as they have sunk a mere 26 holes in their half of the concession in comparison to the nearly 1,500 by Rio. According to Din, BSGR recently removed the majority of its machinery from the northern part of the concession, a possible sign that Steinmetz was leaving the area. Steinmetz reportedly received the land through a connection to Conte's government and seems to be out of favor with the CNDD, according to Din.

15. (C) Din's optimism dramatically shifted in a telephone conversation with Econoff on June 24. Usually open and friendly with the American Embassy, Din told Econoff that he did not feel comfortable speaking on his "unsecured" cell phone. He also said that, for now, he plans to work on the situation with the GOG, and doesn't feel that it is the time to meet with the Embassy. He then made an unsolicited remark to Econoff that Rio's personnel remained secure and safe, and that, for the time being, he doesn't see any threats to their personal security.

JUST BECAUSE IT'S IN THE NEWS, DOESN'T MEAN IT'S TRUE

16. (C) The GOG also threatened US oil exploration company Hyperdynamics (HDY), albeit more indirectly. According to the Country Director, Mohammed Kourouma, staff at Hyperdynamics was shocked by news reports that the GOG had awarded HDY's

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35,000 square mile oil exploration contract to Sino-Angolan oil company Sonongal on July 15. News clips in the local media announced that several meetings with Chinese investors had brought good relations between the CNDD and Sonongal and the company would by taking over HDY's contract.

17. (C) When Econoff asked Kourouma if he plans to confirm these rumors or take any action with the government, he emphasized that since the GOG signed a contract, they have no way to kick HDY out. When Econoff pushed on the point, Kourouma said that the company's progress on oil exploration and large capital investment will inevitably convince the GOG to support them. He said that his company plans to file their quarterly findings report with the GOG this week, and will "hope for the best." Kourouma sidestepped questions about whether he had communicated the news back to HDY headquarters in Texas.

18. (SBU) According to open source reports, Mr. Thiam and other individuals at the MOM have signed a deal with Sonongal and Beiya International Development Ltd. to create a holding company for infrastructure developments in Guinea (reftel C). Allegedly, this company will also contribute to revising Guinea's oil legislation as it pertains to revenue sharing and contract negotiation.

COMMENT

19. (C) While neither of these government actions are a surprise, they highlight the GOG's disregard for commercial contracts. There also seems to be a great deal of back-channel negotiation for natural resource sector exploration. In the case of HDY, Sonongal's increasing presence in Guinea is in line with their public expansion plans. Furthermore, the Secretary General of Mines, Mr. Aboubacer Koly Kourouma, told Econoff in early June that he would like to see HDY leave the country. As such, these two factors makes it unlikely that HDY's "wait and see" attitude will produce effective results.

19. (C) By acquiescing to GOG demands, Rio Tinto seems to have changed its strategy. Despite months of protracted legal battles and hollow threats, Rio Tinto never conceded the northern half of their concession. One week after the most recent threats, however, all Rio Tinto machinery was removed from the premises. Din, a generally positive and upbeat manager, seemed not only disappointed by the letter from Thiam, but also somewhat fearful for his personal security as well as that of his employees -- possibly explaining the removal of equipment. In light of Steinmetz,s apparent disfavor with the CNDD and recent removal of equipment, it is possible that the northern half of the concession is under consideration by another, unknown company. This, in connection with the news about HDY, would explain a wave of recent visits by Chinese natural resource investors as well as the CNDD,s apparent urgency to get Rio off of the concession.
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